Trade Watch: Merchandise trade deficit narrowed in November

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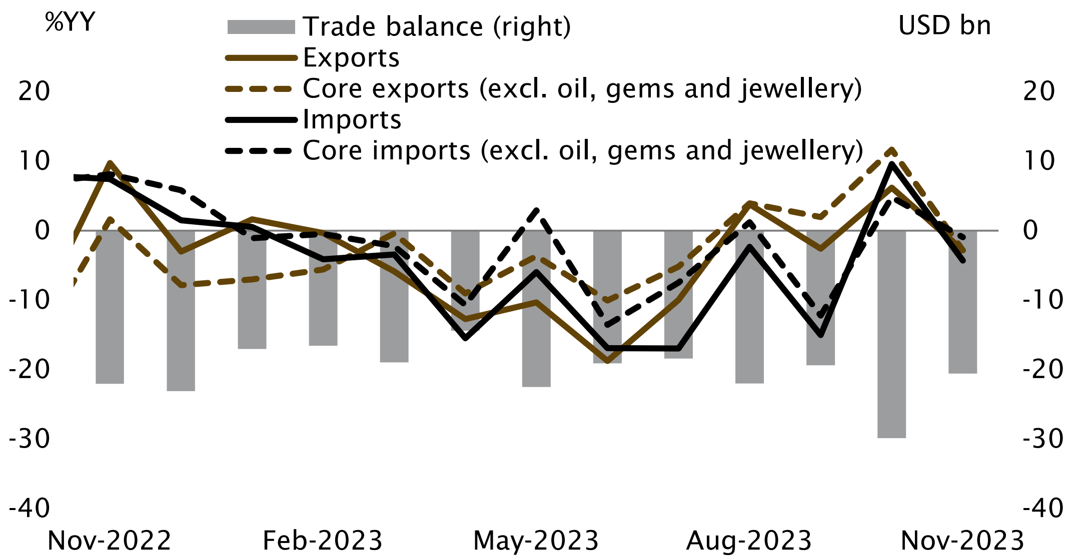
Key takeaways

India's merchandise trade deficit narrowed in November from record high levels of the previous month. In October, oil import bill had increased due to the lagged impact of higher crude oil prices. Also, gold imports surged ahead of the festive season, so that non-core deficit (including petroleum, gems and jewellery) drove up the overall merchandise deficit. In November, non-core deficit moderated, and core deficit also narrowed. Services trade surplus is projected to have improved during the month. While global growth slowdown is likely to weigh on the external sector in 2024, better prospects for global trade (relative to 2023) could act as a tailwind for domestic growth. Global crude oil prices are also expected to remain contained in 2024, which could keep a lid on India's oil import bill. In the medium term, the continued strength in services trade surplus and expected softening in global commodity prices could keep the overall trade deficit in check. Risks to this scenario could emerge if strong domestic growth significantly raises the demand for imports.

Figure 1. Merchandise trade deficit narrowed in November

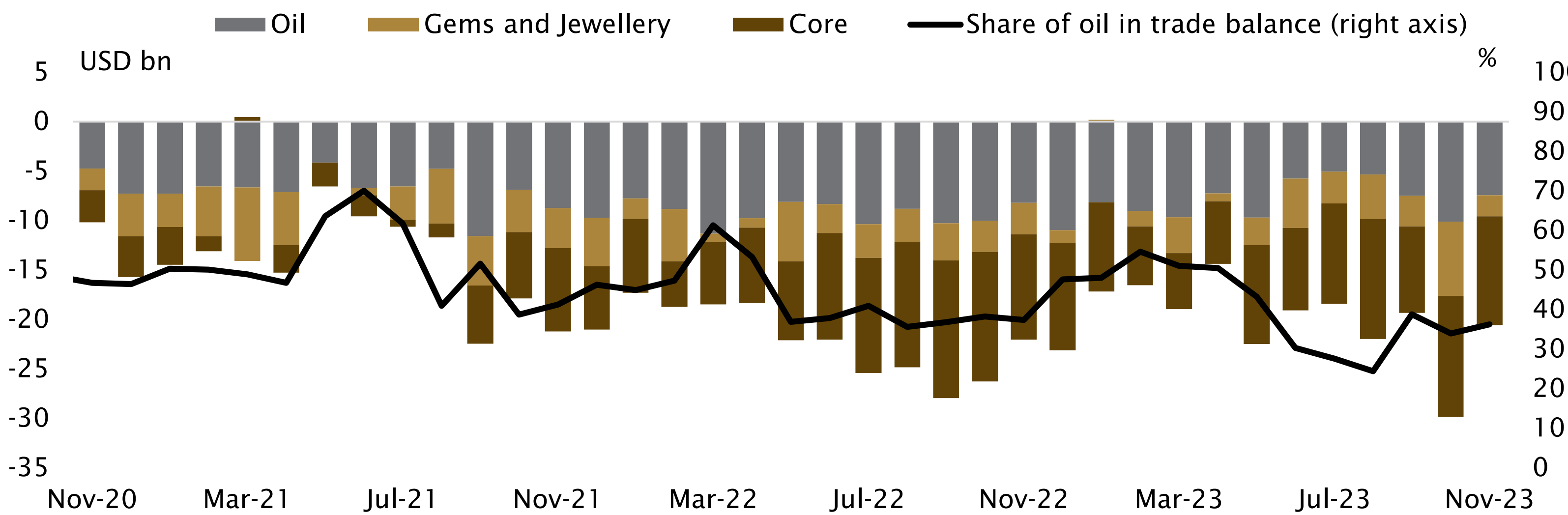


Source: MoSPI

Summary

- **India's merchandise trade deficit narrowed to USD 20.6 billion in November from a record high of USD 29.9 billion in October. Both exports and imports declined after rebounding in October, with imports falling at a faster pace.** The trade deficit for October was revised lower from the initial estimate of USD 31.5 billion.
- Non-core deficit (oil, gems and jewellery) narrowed in November. In October, non-core deficit had widened due to the festive demand for gold, and the lagged impact of increase in crude oil prices in September.
  - In November, gold exports rose after contracting for eight straight months, while imports decreased.
  - Both exports and imports of oil fell at a sharper pace than in October. However, share of oil in overall trade deficit increased compared to the previous month.
- **Core deficit (ex - oil, gems and jewellery) also narrowed, though at a slower pace than non-core deficit. Both core exports and imports fell.**
- On a sequential basis, exports rose 1.0% month-on-month in November amid a surge in oil exports, even as non-oil exports remained in contraction for the third consecutive month.
- Imports fell 14.1%MM after increasing 17.9% in October. Oil, gold and core imports fell in November.

Figure 2. Both core and non-core trade deficit moderated

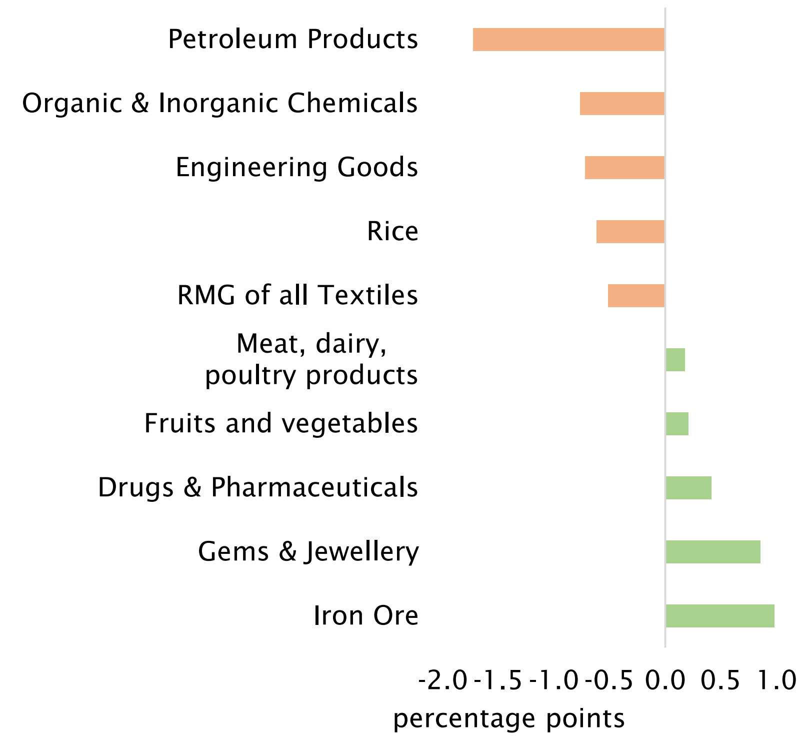


Source: Ministry of Commerce and Industry

Exports declined after rebounding in October

- **Total merchandise exports fell 2.8%YY in November versus the growth of 6.1% in October.**
  - **Core exports, excluding petroleum and gold, mirrored the trend in overall exports.** Within non-core exports, gold exports rebounded after declining for eight straight months, while oil exports remained in contraction for the third straight month.
  - Of the 30 major categories, exports fell in 15 segments in year-on-year terms, up from 8 in October.
    - **Exports of food items such as rice and other cereals contracted, reflecting public policy measures to ensure domestic availability and tame price pressures.**
    - However, exports of perishable food items such as fruits and vegetables, and meat and diary products, continued to increase.
  - **Engineering goods, constituting almost one fourth share in total exports (Apr-Nov FY24), declined year-on-year in November. On similar lines, exports of petroleum products, with an average monthly share of almost 20% in total exports, also fell.**
  - Exports of chemicals, another heavyweight in India's export basket (share of over 6% in monthly exports), have remained in contraction for more than a year now. However, exports of drugs and pharmaceuticals, also with a share of over 6% in total exports, have continued to grow for more than ten months.
  - Exports of electronic goods grew at a tepid pace, staying in expansion despite a high base in the same month of last year.
  - **The post pandemic recovery in exports of textiles remains patchy and sluggish** across segments. The muted external demand has also been a drag on the domestic manufacturing of wearing apparel, measured within the index of industrial production.

Figure 3: Contribution to %YY export growth

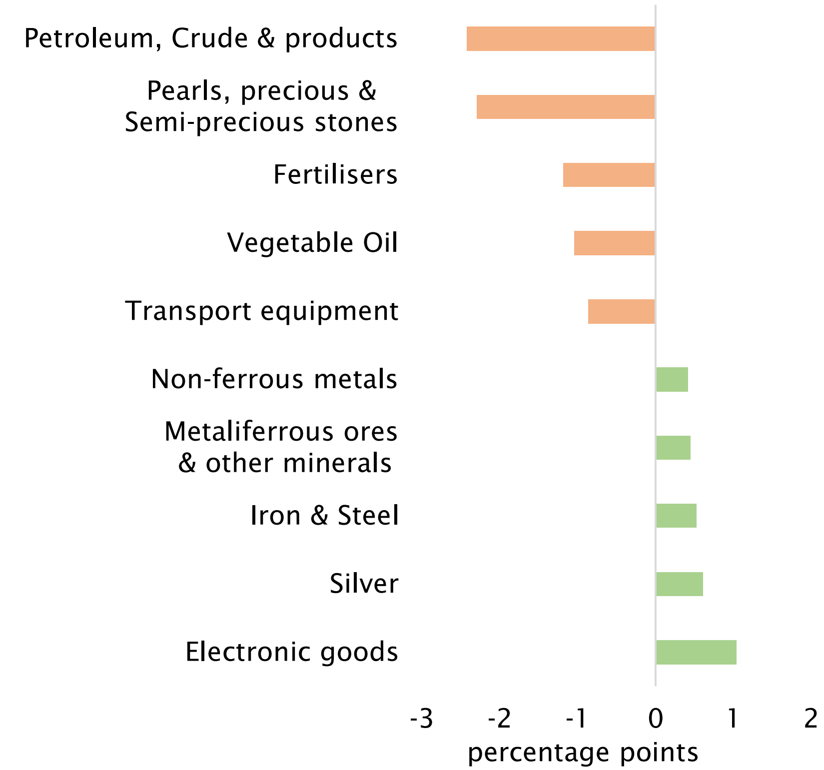


Source: Ministry of Commerce and Industry

Imports fell at a sharper pace than exports

- **Total merchandise imports fell 4.3%YY in November, compared to the growth of 9.6% in October.**
  - **Core imports, excluding petroleum and gold, fell 9.9% after increasing 12.1% in the previous month.** Oil and gold imports also declined.
  - Of the 30 major items, imports rose in 15 segments in year-on-year terms, down from 19 in October.
    - **Imports of silver expanded the most, followed by pulses, and fruits and vegetables.** Domestic inflation in pulses has been in double digits for six months now and the outlook remains clouded amid muted first advance estimate of Kharif output and lagged Rabi sowing. In October 2023, the nominal value of pulses imports was the highest since February 2017.
    - Imports of pearls and precious stones fell the sharpest in November, followed by fertilizers, cotton and vegetable oil.
  - **Crude petroleum and products, with a share of over one fourth in total imports (Apr-Nov FY24), remained in contraction for the ninth consecutive month. Favorable base effects and cheaper imports from countries like Russia have helped curtail the oil import bill.**
  - Among other heavyweights in India's import basket, imports of coal, coke, and briquettes; and transport equipment were weak during the month. However, **machinery imports remained in expansion, attesting to the infrastructure and construction-ked growth in the economy.**
  - Imports of ores and minerals, and metals, including iron and steel, continued to increase at a strong pace.
  - Imports of electronic goods, with an average monthly share of 13% in total imports during Apr-Nov FY24, continued to grow for the seventh straight month.

Figure 4: Contribution to %YY import growth



Source: Ministry of Commerce and Industry

India’s oil imports from Russia remained strong in October

- During April-November 2023, total exports fell 6.5%YY, compared to 12.2% growth in the corresponding period a year ago. Imports declined at a steeper pace of 8.7% after surging 27.9% during April-November 2022. Accordingly, the **trade deficit narrowed to USD 166.4 billion during April-November 2023 from USD 189.2 billion.** Core deficit also moderated to USD 79.0 billion from USD 88.4 billion in April.
- Based on the latest data on trade with economies, **India’s trade deficit remained the largest against China** at USD 51.1 billion during April-October, **followed by Russia, Iraq, Saudi Arabia, and UAE.** The largest share of imports from China included electronic goods, machinery and chemicals.
  - India’s crude oil imports remained the largest from Russia during April-October, followed by Iraq, Saudi Arabia, UAE and the US.
- India’s top export destinations in FY23 were the US, UAE, the Netherlands, China and Bangladesh. During April-November, the UK overtook Bangladesh to be the fifth largest export destination for India.
  - In FY23, India’s major exports to the US included pearls and precious stones, machinery, medicinal and pharmaceutical products, and crude petroleum and products. **During April-October, electronic goods (particularly, telecom instruments and electronic components) constituted the second largest exports to the US, growing a whopping 121.3%YY to USD 5 billion.**

Figure 5. Trade deficit against China remains the steepest

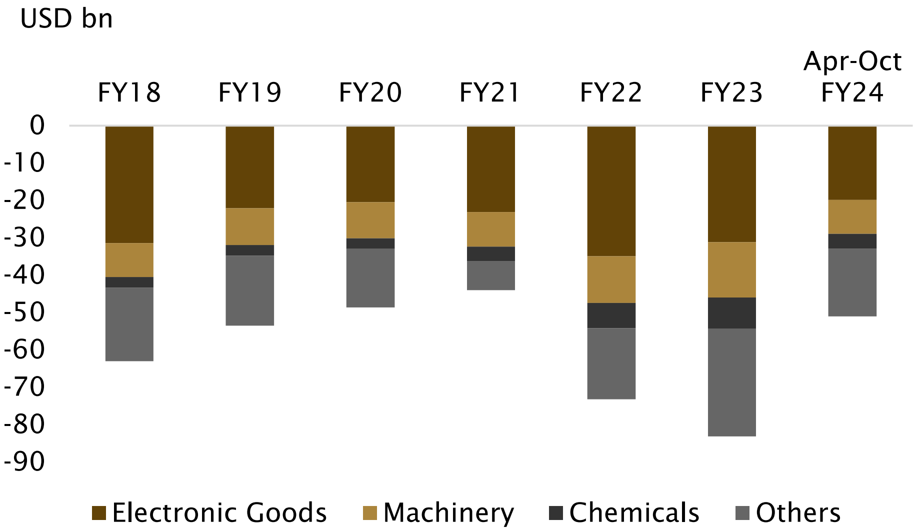
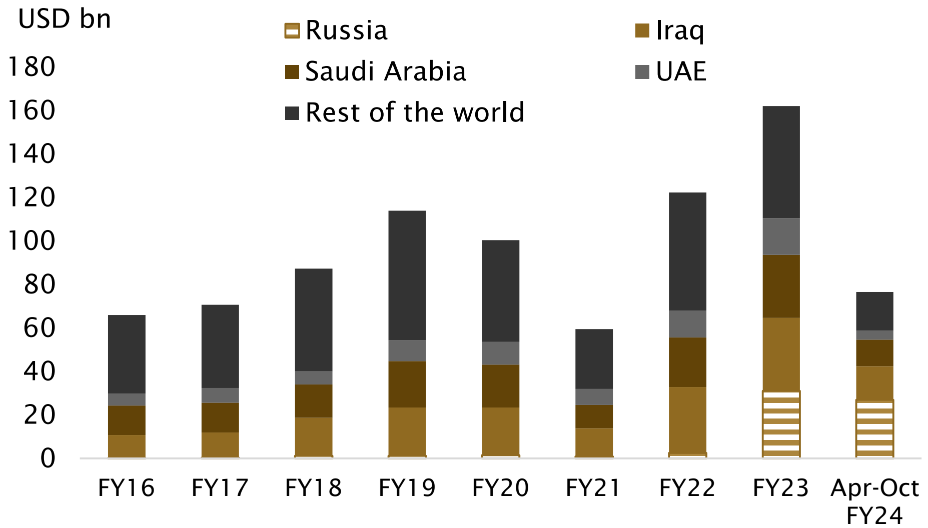


Figure 6. Oil imports from Russia up 84%YY in Apr-Oct



Source: Ministry of Commerce and Industry

Services trade surplus increased in November

- **Services trade surplus improved to USD 15.3 billion in November, up from USD 14.6 billion in October.**
  - Services exports increased 6.3%YY in November, lower than 10.6% growth in October. The increase in October was revised lower from the initial estimate of 13.2%.
  - Services imports fell 12.9%, the steepest decline since early 2021. Imports decreased 0.4% in October, compared to the initial estimate of 5.9% growth.
  - On a sequential basis, exports rose 2.4% month-on-month in November after declining for two consecutive months. Imports remained in contraction for the third straight month.
- Overall exports, including merchandise and services, increased 1.2%YY, lower than the growth of 8.1% in October. Total imports fell 6.2% after increasing 7.7% in the previous month.
  - As a result, **overall trade deficit narrowed to USD 5.3 billion in November from USD 15.3 billion in October.**
  - On a sequential basis, total exports grew 1.7%MM after declining for two months. Total imports fell 11.7%, reversing the 12.4% increase in October.

Figure 7. Services exports growth eased, imports declined

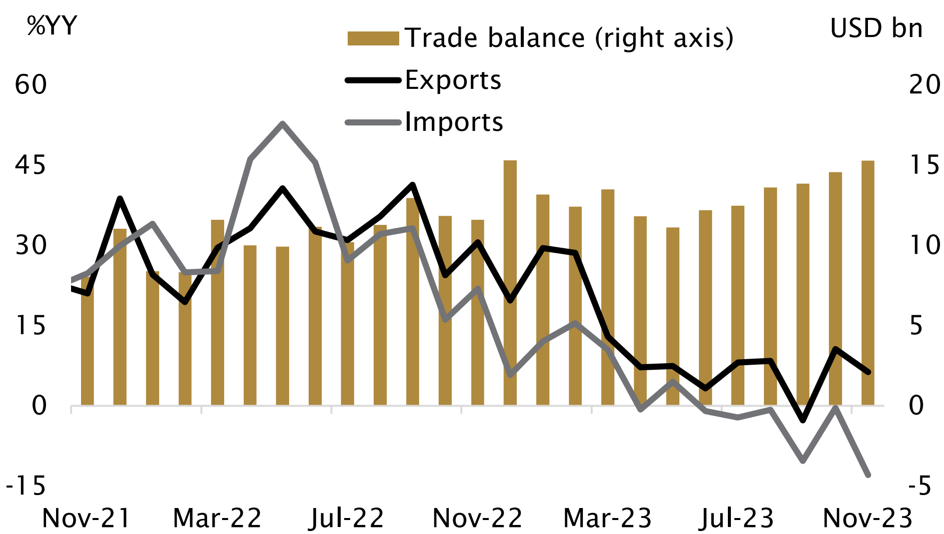
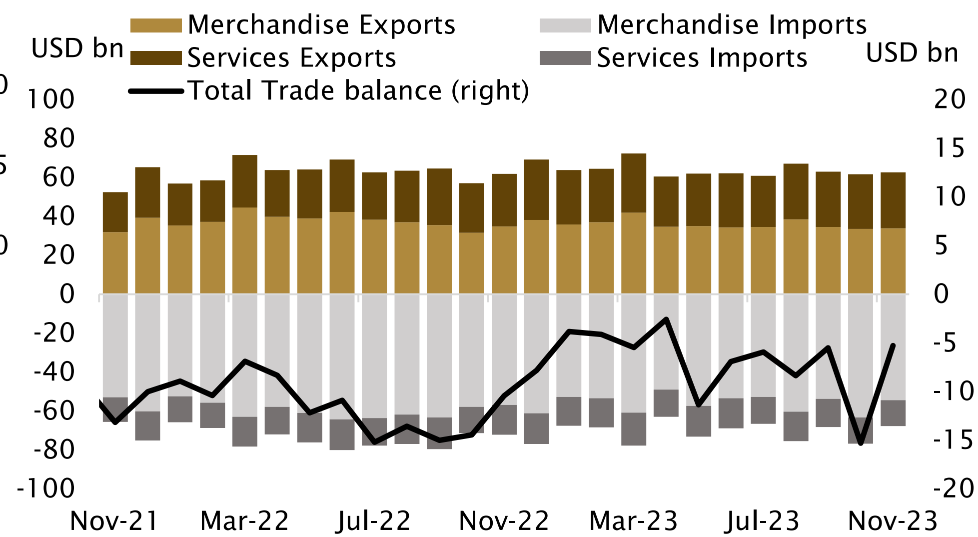


Figure 8. Improved services surplus enabled lower deficit



Source: Bloomberg, Ministry of Commerce and Industry

Relatively better global trade prospects in 2024 to act as tailwind

- Monthly estimates from the Keil trade indicator suggest muted trade flows for the month of December. The near-term outlook remains clouded by the expected slowdown in global growth in 2024 as the impact of monetary policy tightening finds its way across economies.
  - In its latest World Economic Outlook edition, the IMF further trimmed its global growth forecast by 0.1pp to 2.9%YY, far below the historical (2000-19) average of 3.8%.
- Even in the scenario where the monetary policy bias turns soft, it could take time for global growth to return to potential owing to the lag between policy implementation and its impact on economic activity.
- However, there are a few tailwinds that could soften the impact on the external sector.
  - **Global trade growth estimates by the WTO and IMF are muted for 2023 at 0.8% and 0.9%, respectively. However, forecasts for 2024, while remaining below historical averages, are relatively better than 2023. The WTO expects global trade growth at 3.3%, while the IMF forecasts 3.5% growth.**
- World Bank, in its latest commodities outlook (October 2023), expects commodity prices to decline slightly over the next two years in its baseline forecast, despite the uptick in geopolitical tensions.
  - Also, in its latest monthly note, the US Energy Information Agency slashed its 2024 Brent price forecast by $11/barrel to $83/barrel due lower global demand growth, though accounting for the latest production cuts from OPEC+ that could provide a slight boost from current levels. The Indian basket is also currently near $75/barrel.
- The moderation in domestic growth expected in H2-FY24 is likely to keep a lid on demand for imports.
- The surplus in services trade is expected to provide some cushion to the overall current account balance despite the deficit in merchandise trade.
- Amid these tailwinds, risks could emerge if strong domestic growth significantly raises the demand for imports.

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